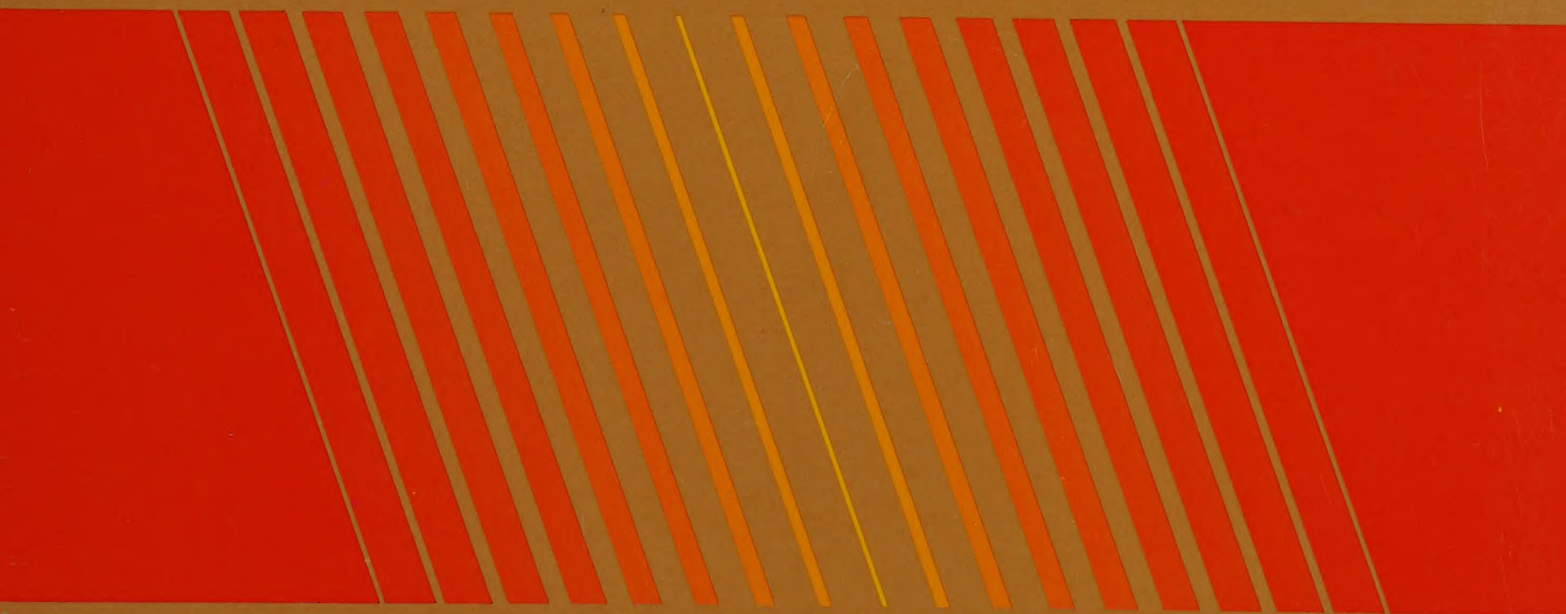


AR46



ANNUAL REPORT 1978



CORPORATE DIRECTORY

DIRECTORS

*IAN B. CAMPBELL, C.A.
*R. W. CHORLTON
GOWAN T. GUEST
DEREK A. HANSON, Q.C.
F. G. HARVEY
THOMAS LOHNER, Dipl. Ing.
H. W. MACDONELL, Q.C.
*PETER PAUL SAUNDERS
*D. R. SOBEY
*D. C. H. STANLEY
*D. L. TORREY

*Member of the Audit Committee

OFFICERS

R. W. CHORLTON
IAN B. CAMPBELL, C.A.
J. A. CRAWFORD
R. H. GODFREY, P.Eng.
F. G. HARVEY
P. G. SIMS, C.A.
R. G. WILLOX
Y. L. THIBEAULT, C.A.

Chairman of the Board and Chief Executive Officer
President and Chief Operating Officer
Vice President
Vice President
Vice President and Secretary
Vice President and Treasurer
Vice President
Assistant Treasurer

BANKERS:

Bank of Montreal • Bank of British Columbia •
Royal Bank of Canada • Seattle-First National Bank

REGISTRARS:

National Trust Company Limited

TRANSFER AGENT:

The Royal Trust Company

LEGAL COUNSEL:

Courtois, Clarkson, Parsons and Tétrault

AUDITORS:

Touche Ross & Co.

STOCK LISTINGS:

Montreal Stock Exchange • Toronto Stock Exchange

HEAD OFFICE:

350 Sparks Street, Ottawa, Ontario K1R 7S8

Annual Meeting of Shareholders

The Annual General Meeting will be held at the Hotel Toronto, Toronto, Ontario on Tuesday, April 24, 1979 at 11:00 a.m. A buffet luncheon will be served following the meeting.

Valuation Day

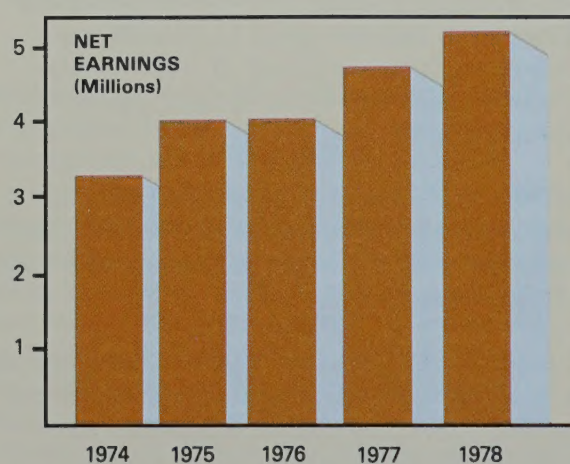
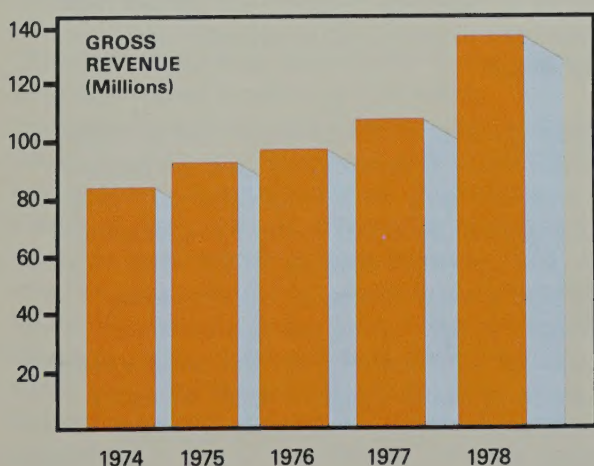
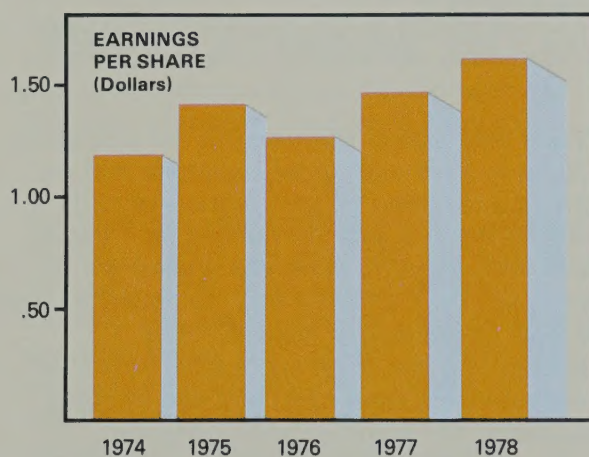
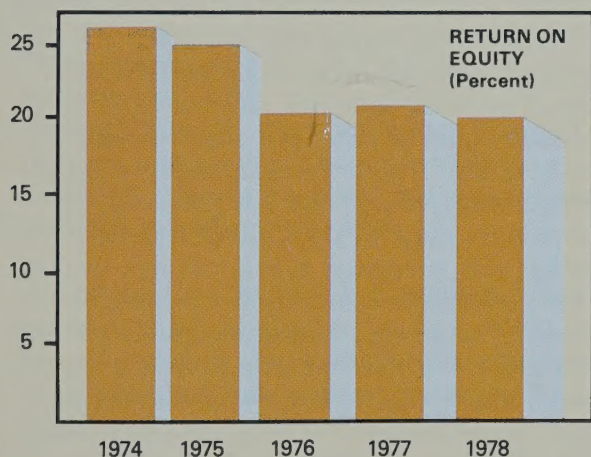
The value for capital gains tax attributed to Wajax Limited common stock on Valuation Day (December 22, 1971) was \$13.63, which by virtue of 2-for-1 stock splits in 1972 and 1977 is now equivalent to \$3.4075 per Class A share.

FINANCIAL HIGHLIGHTS

Operations (thousands of dollars)	% Change	1978	1977
Gross Revenue	28.1	\$137,167	\$107,067
Net Earnings	10.4	5,224	4,730
Financial Position (thousands of dollars)			
Working Capital	3.5	27,788	26,853
Long-term Debt	(5.6)	7,650	8,100
Shareholders' Equity	17.4	28,396	24,183
*Per Common Share			
Net Earnings	9.6	\$1.60	\$1.46
Dividends	†	.70	.52 ½
Shareholders' Equity	14.4	8.52	7.45

* Adjusted to reflect the two-for-one stock split effective October 14, 1977.

† As a result of the alignment of dividend payment dates with the calendar quarters, five dividends of 14¢ per share were paid in 1978. On a regular quarterly dividend basis, however, the indicated annual rate was 56¢ per share.





Left to Right

P. G. SIMS

IAN B. CAMPBELL

R. W. CHORLTON

F. G. HARVEY

REPORT TO THE SHAREHOLDERS

Wajax established new records for operating results in 1978 with gross revenues and net earnings reaching all time highs — records established in a year that ended as it began, filled with contrary economic indicators. In doing so, the Company has continued to meet its goal of consistent growth, 1978 representing the tenth successive year that improvements have been attained in gross revenues, net earnings and dividends.

The results were somewhat better than anticipated in our earlier forecasts with the improvement coming from an exceptionally strong final quarter when \$1,674,000 was earned on gross revenues of \$42.5 million — the best financial results for any quarter in the Company's history.

For the year, earnings of \$5,224,000 were attained on gross revenues of \$137,167,000, increases over the previous year of 10.4% and 28.1% respectively.

A number of significant changes are apparent in our year-end statements. Total assets are up over \$21 million, all of which has been financed by working capital. Accounts

receivable and inventories each increased by more than \$9 million, a direct reflection of the record sales volumes and increased tempo of business in the last quarter of 1978, and the acquisitions made during the year.

The program begun in 1977, of upgrading facilities and acquiring operating properties in key market areas, is continuing and resulted in additions to fixed assets of over \$2.3 million in 1978. The major items were excellent properties, including highly functional buildings, in Whitehorse and in Laval, and the purchase of 2.6 acres of land in Edmonton on which we plan to construct a major truck service facility for our Waterous GM Diesel subsidiary.

While bank loans have increased over \$7 million over the year, we are operating well within our available lines of credit. Nevertheless, and depending upon money markets, major additions to our properties will likely be at least partially financed through additional term debt.

On the Earnings Statement, the most significant changes other than the 28% increase in gross revenues, are the 31% increase in cost of sales and the 47% rise in interest costs. The former is a direct result of competitive pressures and the deteriorating international value of the Canadian dollar, together with a change in product mix caused by the very substantial increase in sales of Materials Handling, Woodlands and Crane and Utility units. For the first time in over a decade, interest costs became a meaningful factor, rising to over 7% of gross profit. With no current indications of an imminent reduction in prime rates, interest costs will continue as a major element as long as the volume of business requires continued high investment in accounts receivable and inventories.

Regular quarterly dividends of 14¢ per Class A and per Class B share were paid on January 31, April 28, July 31 and October 31, 1978, and a further dividend in the same amount was paid on December 29, 1978. The indicated annual dividend rate, however, remained at 56¢, since the payment on December 29 resulted from the advancement of dividend dates by one month so as to coincide with the end of each calendar quarter.

In light of the improved results reported above, at a meeting held on March 7, 1979, the Directors declared an increased quarterly dividend of 16¢ per Class A share. Shareholders have been advised of our plans to pay stock dividends on the Class B shares. Accordingly, dividends payable on March 30, 1979 have been declared as follows:

Per Class A share - 16 cents
Per Class B share - .0128 Class B share

The fractional stock dividend on the Class B shares as above has been calculated with reference to an average closing market price on the Toronto Stock Exchange of \$12.50 for the last three days on which trading took place preceding March 7, 1979, the declaration date.

The improved operating results were the consequences of our being well positioned in Western Canada to take advantage of the buoyant market conditions that continue to prevail in the regional economy as a whole, but particularly in the forest industry in British Columbia and energy related industries in Alberta. Wajax has been broadening its business base in Western Canada over the past ten years and in the year under review over sixty percent of gross revenue and net earnings were from this area.

In Eastern Canada market conditions were generally soft, particularly so for mining machinery as the base metal mines continued to operate well below capacity. Market problems in the mining sector were further aggravated during the year by a lengthy strike in the iron ore operations of Quebec and Labrador and in the nickel mining operations around Sudbury.

The manufacturing operations of the Company attained mixed results. In the Utility Equipment and Crane Division profit margins showed some improvement, but continued at lower than acceptable levels, in part as a result of high start up costs of a new line of knuckle boom loaders introduced in 1978. In the fire equipment field, overall profit results were satisfactory with major successes in this Division being achieved at the Niedner fire hose plant, where significant market acceptance was gained in Canada and more especially in the United States for new types

of hose woven from synthetic fibres. This tended to offset the effect of somewhat lower volumes in forest fire control equipment, a notoriously cyclical business.

A major development during the year was the acquisition of four companies, all of which met the Company's related diversification criteria. In addition to Trailbec Ltd., a Quebec based manufacturer of heavy trailers, mention of which was made in the 1977 Annual Report, the companies were:

- Elvins Equipment Sales Limited, a leading Yukon Territory distributor of diesel engines and trucking equipment. Based in Whitehorse, this company is well placed to assist Wajax in taking advantage of the high growth potential of such undertakings as the proposed Alaska gas pipeline and substantial open pit mining developments.
- LFT Materials Handling Limited of Toronto with branches in Hamilton and London. This company specializes in lift truck rentals, parts sales and service and is an excellent complement to the Company's Materials Handling Division in Ontario.
- National Bearings Limited and an associated company, Oil Seals Specialty Co. Ltd. of Montreal. With eight sales outlets in Quebec and Eastern Ontario, this company provides Wajax with access in depth to a very large machinery after-market. The supply of bearings, oil seals and power transmission components is a rapidly growing business and such items are closely related to many of the existing Wajax machinery markets.

The Wajax outlook for 1979 is reasonably encouraging notwithstanding numerous uncertainties about the general Canadian economy. In our view, the fall in the exchange value of the dollar and the consequent improvement in demand for Canadian goods, particularly those based in natural resources, have brought about a marked improvement in the outlook for business capital investment. Year-end surveys of investment spending intentions suggest that capital outlay will be stronger for 1979 than for any year since 1975.

As part of our continuing process of decentralizing management responsibilities, and in recognition of the substantial pool of talent within our organization, the following senior corporate appointments were made during the year:

G. R. Donaldson
Vice President and General Manager
British Columbia,
Wajax Industries Limited

J-P. Vinet
Vice President, Quebec
Wajax Industries Limited

B. W. Scobie
President, Fire Control Division
(Comprising Wajax Manufacturing Limited,
Niedner Limited, Pacific Pumpers Inc.,
Pacific Fire Control Inc., and
Wilco Fire Equipment Co.).


The Annual General Meeting of shareholders, as noted in the material accompanying this report, is to be held in Toronto on April 24th, 1979, and we hope that this will be well attended, as usual, by our shareholders and friends. We have thought it opportune at this time to nominate one additional member to the Board of Directors, and you will therefore be invited to elect, in addition to the incumbent Board, Dr. Pierre R. Gendron, C.C., F.R.S.C., B.Sc., Ph.D., F.C.I.C. Dr. Gendron, with an outstanding background in the world of business and academe, was President of the Pulp and Paper Research Institute of Canada from 1968 until becoming Deputy Chairman of that Institute earlier this year.

In closing, on behalf of all Directors, we would like to thank employees of Wajax at all levels for the great contribution they made to the development of the Company in 1978. Ours is a decentralized company, placing major emphasis on individual initiative. The results of 1978 have once again confirmed our confidence in the future of our Company.

On behalf of the Board,



R. W. Chorlton,
Chairman and Chief Executive Officer.



Ian B. Campbell,
President and Chief Operating Officer.



G. R. DONALDSON,
Vice President & General Manager (B.C.),
Wajax Industries Limited

G. ELVINS,
President, Elvins Equipment Sales Limited

R. H. GODFREY,
Vice President (Mining), Wajax Limited

J.-P. VINET,
Vice President (Quebec), Wajax Industries Limited

OPERATIONS REPORT

If ever there were any doubts about the wisdom of diversification as a guiding principle of our operating philosophy, the events of the year 1978 must have served to dispel them. Almost every aspect of our business was affected by the ups and downs of the economic see-saw, but in spite of these extremes the final outcome reflected sustained growth at a steady if unspectacular pace.

On the whole, the Materials Handling Division sales were quite strong, buoyant demand in Western Canada more than offsetting generally flat market conditions in Eastern Canada. Margins were lower than the previous year on unit sales as well as on replacement parts because of competitive pressure. Sales achievements were supported by Hyster Company's aggressive expansion of their Canadian manufacturing plant, and the introduction of new Canadian built models to the product range. Hyster's growth has been matched by the Materials Handling Division in their expansion of sales and service facilities, including the acquisition of LFT Materials Handling Limited in Ontario, mentioned elsewhere in this report.

Sales and profit contribution of our Waterous GM Diesel unit was at an all-time high, reflecting the high level of market activity in Alberta, the Northwest Territories, the Yukon and Northeastern British Columbia. Demand

was strong over the whole spectrum of diesel power applications — exploration, drilling, mining and transportation — but a major growth factor was the further expansion of Waterous' facilities and branches. In this latter context, the acquisition of Elvins Equipment Sales Limited in Whitehorse will greatly assist the Yukon and Northern B.C. coverage.

The Mining Equipment Division, a substantial contributor to the Company's strong growth trend in past years, had a disappointing year. The Canadian base metal mining industry operated at sixty percent of capacity, a twenty year low, and consequently the demand for new mining machinery and parts was sharply reduced. Regrettably, the results of this important Division were further affected by labour disputes, firstly by a prolonged strike in the Labrador iron ore range, now settled, and then by a strike in the Nickel Belt. The foregoing negatives more than offset the improvement in results from uranium, oil sands and coal development. Towards the close of the year, a generally improved outlook began to emerge for Canadian mining products over the short and medium term.

Under generally flat conditions, our key mining equipment suppliers introduced new models and broadened ranges of equipment which will be of great assistance as the tempo of demand picks up. Eimco (a division of Envirotech Corporation) unveiled an attractive new series of load-haul-dump units and articulated dump trucks incorporating



R. JONES,
Vice President &
General Manager (Manufacturing)
Utility Equipment & Crane Division

R. G. WILLOX,
Vice President, Wajax Limited
J. A. CRAWFORD,
Vice President, Wajax Limited

B. W. SCOBIE,
President, Fire Control Division

advanced technology and functional industrial design. Marathon LeTourneau introduced a 22 cu. yd. loader and an 800 horsepower dozer, giants in their field but instantly responsive to electric and hydraulic control, while other new products well suited to Canadian markets were offered by Fenner, Super Products, Dosco and Demag among others. Substantial orders for ASH pumps originated from Oil Sands operations and from one base metal mine in Manitoba.

The Woodlands Equipment Division operating in British Columbia and Alberta enjoyed a very strong level of demand as market conditions for sawn lumber and plywood were buoyant throughout the year and those for pulp and paper improved in the second half. This Division's activities are built around log handling equipment supplied by Marathon LeTourneau and Barko — both leaders in their respective fields.

Market conditions for utility equipment and cranes manufactured by the Smith Bros. plant improved toward mid-year after a slow start, and as a result overall sales and profit contribution were somewhat ahead of 1977. Two of the older Pitman digger derrick models were superseded by four new Polecats designed at Smith Bros. specifically for Canadian conditions, with excellent acceptance, and design work was completed on further additions to the VIVA crane line for introduction in 1979. A start was made in

utilizing the facilities of Trailbec, the Montreal based manufacturer of heavy trailers acquired early in the year, to produce special utility bodies for the Quebec market.

In a move designed to provide more effective, cohesive market coverage and penetration for the products manufactured by Smith Bros. Motor Bodies, as well as other cranes and man-lift devices imported by Wajax, a Utility Equipment & Crane Division was formed by year-end. The Division will be responsible for all aspects of this growing activity.

The fire control group continued to benefit from a more cohesive management structure, and its widely dispersed elements cooperated effectively to penetrate related but previously undeveloped markets. With few exceptions, forest fires were at a low level during the year, so that sales for forest protection were limited to minimum budgetary requirements, but any shortfall in this area was more than offset by our penetration of new industrial markets. New types of fire hose woven from all-synthetic fibres were successfully introduced both in Canada and the United States, where the new Wajax Mark 75 pump, with four times the pumping capacity of the popular Mark 3, has also been enthusiastically received. Wajax, continuing to be regarded as a world leader in forest fire fighting expertise, put on extensive training programmes last year in Venezuela and in Alaska, also giving courses of instruction at its own plants to visiting firemen from Kenya and Malaysia.



A. A. SCHULTZ,
President, Waterous GM Diesel Limited

I. ROBERTSON,
Vice President & Treasurer,
Waterous GM Diesel Limited

From a geographical standpoint, while Eastern Canadian operations of the Company have not matched the dynamic Western Canadian growth, in point of fact the results are creditable considering the fact that the heavier dependence on mining activity created a special negative.

In the Maritime Provinces, sales on the whole were better than last year and our Dartmouth, Nova Scotia branch completed on a profitable basis its first year as a "full line" operation.

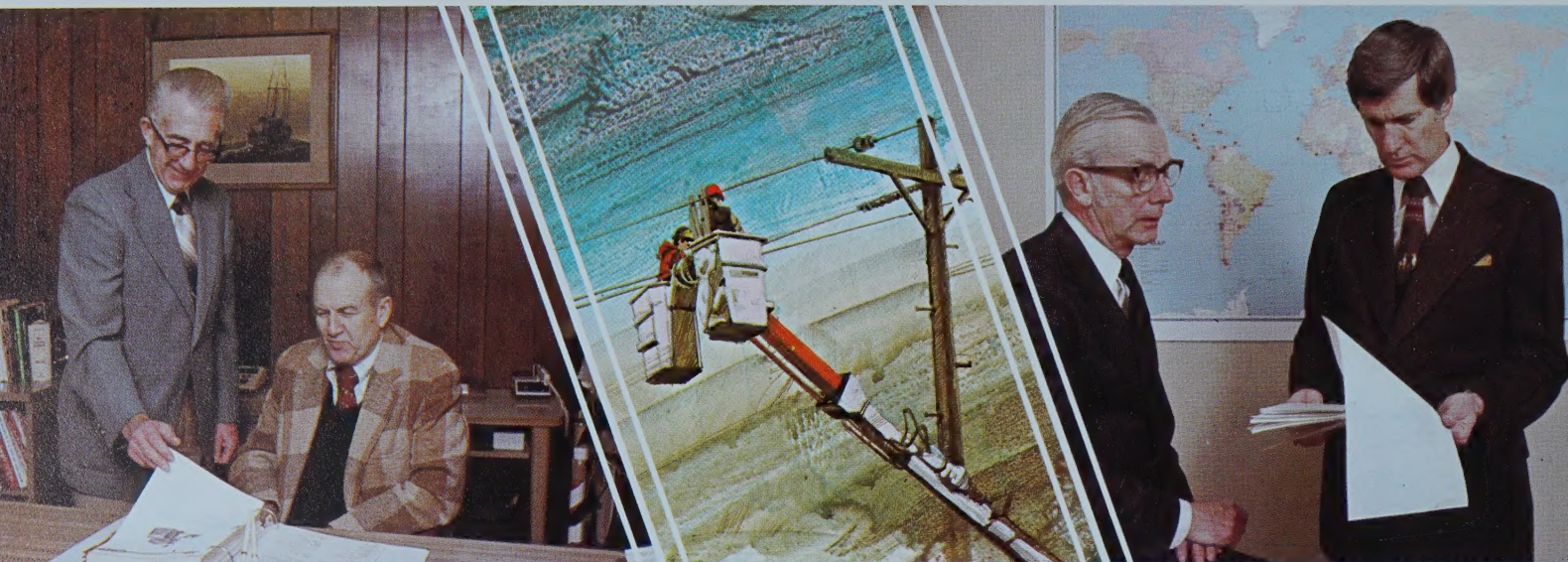
In Quebec, apart from mining, general conditions in all other fields were somewhat better than 1977 and, as a result, the overall contribution from the distributing activities in this province was satisfactory. Sales of specialized LeTourneau electric wheel equipment to stevedoring and transportation companies made a solid contribution to performance here. With the settlement of the strike at Sept Iles and improvement in outlook for the mining industry, the overall tempo of our Quebec business increased by year-end.

The most disappointing results for the Company were in Ontario where the mining slowdown, complicated by the Nickel Belt strike, severely hurt our Northern Ontario operations, and the other principal activities in Materials Handling and Utility Equipment and Cranes were hardly improved over last year. The general flatness of our business in Ontario which persisted from 1977 led us to make substantial structural changes in our

distribution organization. Firstly, we used the period of reduced mining activity to relocate our northern sales and service facilities from North Bay to Elliott Lake and to Sudbury so as to be closer to the important uranium and nickel centres. Secondly, we reorganized the Materials Handling Division internally and strengthened its coverage in Ontario by acquiring LFT Materials Handling Limited. The overall sales and marketing efforts for the products manufactured by the Smith Bros. plant will be strengthened by the creation of the Utility and Crane Division. Stronger order intake by year-end in all of these divisions leads us to expect that overall results in Ontario in 1979 will be ahead of 1978.

Overall results in Manitoba and Saskatchewan were disappointing as the declining contribution from base metal mining equipment sales offset the sales gains made in the Saskatchewan potash mines. Additionally, the new specialized service department for Utility Equipment & Cranes did not perform as well as anticipated. Gradually improved market conditions, and a continuing reinforcement of our organizational structure in Western Canada, give us confidence that this territory will soon regain its past position as a substantial contributor.

Alberta offered excellent opportunities for all facets of our business, and these were followed up with enthusiasm. Waterous GM Diesel's expansion of its premises in Edmonton and Calgary, as well as a new



E. ENGELHARDT,
Vice President, Pacific Pumpers Inc.

C. H. STRATTON,
Vice President, Wilco Fire Equipment Co.

G. A. A. HUNTER,
Vice President, Wajax International Limited

G. H. GOOD,
Executive Vice President,
Wajax International Limited

branch in Red Deer, were almost immediately utilized to the full. Nor should we allow the Waterous performance to overshadow that of Wajax Industries Limited in the province, with a very substantial profit improvement in Edmonton and a healthy operation in Calgary which has previously been somewhat of a disappointment. Our product mix is extremely well suited to the vigorous Alberta economy and further growth prospects are most favourable.

The strong demand for B.C. lumber, accentuated by the falling Canadian dollar and the resulting price advantage in the United States, stimulated the economy of that province and enabled us to show a good return from all our activities except mining. The recent upturn in world copper prices, coupled with a strong demand for the molybdenum extracted from the same ores, encourages us to look for a better balance in the B.C. economy for 1979, and we have geared up for this with a new look in our mining division. As mentioned elsewhere, the acquisition of Elvins Equipment Sales Limited in Whitehorse, Yukon, added a new perspective to our coverage of the Pacific Northwest.

South of the border, our fire control operations in the United States had a good year both as regards the pumps and ancillary equipment manufactured in Seattle, Washington, and the substantial quantities of fire hose imported from the Canadian plant at

Coaticook, Quebec. As a stepping stone to untapped markets in the southeastern United States, we have opened a sales branch in Atlanta, Georgia, and are looking for a strong positive reaction in this highly active environment.

Export business represents a relatively small percentage of gross revenue, but our worldwide network of contacts and markets continues to expand on a profitable basis and the growth potential is significant. Substantial utility equipment orders obtained for Saudi Arabia are expected to spearhead further penetration of the Middle Eastern and OPEC communities. Wajax now has an active corporate branch in Chile, an aggressive distributorship in Argentina and an established reputation in most of the countries of Latin America. Export volume stems principally from the forest fire control and utility equipment lines of our own manufacture, but it is worth noting that some of our foreign suppliers have seen fit to appoint Wajax to represent them in overseas markets.

To sum up, we are gratified by the results achieved and the progress made in a year when one of our major market sectors was in a state of almost total eclipse. Although predictions for general economic growth in 1979 have been somewhat restrained, we are encouraged by the indicators in our particular markets to expect that our hard work and organizational refinement will not go unrewarded in the coming year.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31

(Dollars in thousands)

	1978	1977
Gross revenue	\$137,167	\$107,067
Cost of sales	<u>107,304</u>	<u>81,932</u>
Gross profit	<u>29,863</u>	<u>25,135</u>
Selling and administrative expenses	18,664	15,349
Interest expense	<u>2,189</u>	<u>1,483</u>
	<u>20,853</u>	<u>16,832</u>
Earnings before income taxes	9,010	8,303
Income taxes	<u>3,786</u>	<u>3,573</u>
Net earnings	<u>\$ 5,224</u>	<u>\$ 4,730</u>
Earnings per common share	<u>\$1.60</u>	<u>\$1.46</u>
Weighted average number of shares outstanding	<u>3,267,699</u>	<u>3,238,061</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

(Dollars in thousands)

	1978	1977
Retained earnings at beginning of year	\$ 16,542	\$ 13,564
Net earnings	<u>5,224</u>	<u>4,730</u>
	21,766	18,294
Dividends - Note 7	<u>1,838</u>	<u>1,752</u>
Retained earnings at end of year	<u>\$ 19,928</u>	<u>\$ 16,542</u>

WAJAX LIMITED

(Incorporated under the Canada Business Corporations Act)

CONSOLIDATED BALANCE SHEET

(Dollars in thousands)

ASSETS

	1978	1977
Current		
Cash	\$ 265	\$ 110
Accounts and notes receivable	26,190	16,949
Inventories	44,399	34,992
Prepaid expenses	240	184
Deferred income taxes - Note 3	590	442
	<u>71,684</u>	<u>52,677</u>
Fixed - Note 4		
Fixed assets	10,897	8,004
Less accumulated depreciation and amortization	4,932	4,031
	<u>5,965</u>	<u>3,973</u>
Other		
Unamortized debenture issue expenses	190	202
Goodwill - Note 5	2,103	1,255
	<u>2,293</u>	<u>1,457</u>
	<u>\$79,942</u>	<u>\$58,107</u>

On behalf of the Board:



Director



Director

The Shareholders
Wajax Limited

We have examined the consolidated balance sheet of Wajax Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

AUDITORS

ET AS AT DECEMBER 31, 1978

ousands)

LIABILITIES

	1978	1977
Current		
Bank indebtedness - Note 6	\$16,729	\$ 9,001
Accounts payable and accrued liabilities	20,436	12,945
Notes payable - Note 6	2,945	2,139
Income and other taxes payable	3,786	1,262
Dividend payable - Note 7	-	477
	<u>43,896</u>	<u>25,824</u>
 Long-term debt - Note 8	 7,650	 8,100

SHAREHOLDERS' EQUITY

Capital stock - Note 7	8,468	7,641
 Retained earnings	 <u>19,928</u>	 <u>16,542</u>
	<u>28,396</u>	<u>24,183</u>
	<u>\$79,942</u>	<u>\$58,107</u>

REPORT

our opinion, these consolidated financial statements present fairly the financial position of
e Company as at December 31, 1978 and the results of its operations and the changes in its
ancial position for the year then ended in accordance with generally accepted accounting
nciples applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

tawa, Ontario
bruary 23, 1979

Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31

(Dollars in thousands)

	1978	1977
Source of funds		
From operations		
Net earnings	\$ 5,224	\$ 4,730
Items not requiring an outlay of funds		
Depreciation and amortization of fixed assets	720	621
Amortization of other assets	52	12
	<u>5,996</u>	<u>5,363</u>
Working capital of subsidiaries at dates of acquisition	1,446	—
Proceeds from sale of fixed assets	—	33
Issue of shares	827	134
	<u>8,269</u>	<u>5,530</u>
Application of funds		
Acquisition of subsidiaries	2,718	—
Purchase of fixed assets	2,328	1,189
Decrease in long-term debt	450	200
Purchase of minority interest	—	121
Dividends	1,838	1,752
	<u>7,334</u>	<u>3,262</u>
Increase in working capital	<u>\$ 935</u>	<u>\$ 2,268</u>
Working capital at end of year	<u>\$27,788</u>	<u>\$26,853</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1978

1. Accounting Policies

Principle of Consolidation

These consolidated financial statements include the accounts of Wajax Limited and all its subsidiary companies.

Foreign Currency Translation

Current assets and liabilities in foreign currencies have been translated into Canadian dollars at the rates prevailing at the balance sheet date.

Fixed assets are translated at the rate prevailing at the dates of acquisition.

Revenue and expenses are translated at average rates for the year.

Exchange gains and losses are taken into income in the year they occur.

Inventories

Inventories, including used equipment and rental units, are valued at the lower of cost and net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. Accounting Policies (continued)

Fixed Assets and Depreciation

Fixed assets are recorded at cost.

Depreciation, on the diminishing balance basis, and amortization are provided at the following rates:

Buildings	- either 5% or 10%
Equipment	- 20%
Automotive equipment	- 30%
Leasehold improvements	- straight-line over expected term of lease

Other Assets

Debenture issue expenses are being amortized over the terms of the issues.

The Company believes that goodwill represents continuing value and accordingly goodwill arising from acquisitions prior to the end of 1973 is recorded as an asset without amortization. In accordance with the requirements of the Canadian Institute of Chartered Accountants concerning generally accepted accounting principles, goodwill arising from acquisitions subsequent to 1973 is being amortized over the expected period of benefit, not to exceed forty years.

2. Statutory Information

During the year the Company obtained a certificate of continuance under the Canada Business Corporations Act. In accordance with Section 47 of the Regulations to this Act the Board of Directors has determined the business of the Company and its subsidiaries to be of one class, namely the manufacture and distribution of mechanical equipment.

3. Deferred Income Taxes

Deferred income taxes arise mainly from the elimination from consolidated earnings of profits upon intercompany sales, and from equipment warranty and other provisions reflected in the accounts which are not deductible for income tax purposes until the disbursements are actually made.

4. Fixed Assets

	1978	1977
Land and buildings	\$3,684,000	\$2,075,000
Less accumulated depreciation	748,000	631,000
	<u>2,936,000</u>	<u>1,444,000</u>
Equipment and leasehold improvements	7,213,000	5,929,000
Less accumulated depreciation and amortization	4,184,000	3,400,000
	<u>3,029,000</u>	<u>2,529,000</u>
	<u>\$5,965,000</u>	<u>\$3,973,000</u>

5. Acquisitions

During the year the Company acquired all of the outstanding shares of the following companies:

Trailbec Ltd.
Elvins Equipment Sales Limited and its subsidiary, Elvins Limited
LFT Materials Handling Limited and its subsidiary, Multi-Lift Limited
National Bearings Limited and an affiliate, Oil Seals Specialty Co. Ltd.

All of the above acquisitions have been accounted for under the purchase method. Goodwill arising from these acquisitions amounted to \$888,000.

6. Bank Indebtedness and Notes Payable

Bank indebtedness is secured by a general assignment of book debts and inventories of \$6,350,000 (\$7,300,000 in 1977).

Notes payable to suppliers and financial institutions amount to \$2,945,000 (\$2,139,000 in 1977) of which \$2,371,000 (\$1,855,000 in 1977) is secured by inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

7. Capital Stock

As at December 31, 1978 there were outstanding 3,331,820 common shares of the Company without nominal or par value divided into Classes A and B, which rank equally for all purposes, except that the Company now has the power to declare stock dividends on the Class B shares, which were originally created to receive tax deferred dividends. The Class A and Class B shares are fully convertible from either class to the other on a share-for-share basis.

Changes in capital stock during the year were as follows:

	Class A	Class B
Common shares outstanding at beginning of year	2,731,816	515,004
Options exercised	7,000	—
Shares issued at a stated value of \$10 each, as part consideration for acquisitions made	78,000	—
Net conversion of Class A shares to Class B shares	(23,052)	23,052
Common shares outstanding at end of year	<u>2,793,764</u>	<u>538,056</u>

Dividends declared during the year were as follows:

Class A shares	\$1,538,000
Class B shares	300,000
	<u>\$1,838,000</u>

Effective with the dividend declared November 15, 1978 the Company has adopted the practice of paying dividends at the end of the financial quarter in which they are declared.

Options, which expire five years after date of grant, are outstanding to purchase 63,700 unissued shares of the Company as follows:

	To Officers	To Other Employees
Options granted September 9, 1975 at \$6.1875 per share	—	3,200
Options granted November 17, 1977 at \$8.78 per share	—	5,000
Options granted November 15, 1978 at \$9.00 per share	39,500	16,000
	<u>39,500</u>	<u>24,200</u>

8. Long-Term Debt

	1978	1977
8-3/4% Sinking Fund Debentures, Series A, payable March 1, 1993	\$4,500,000	\$4,500,000
11-3/4% Sinking Fund Debentures, Series B, payable October 15, 1995	3,600,000	3,800,000
	8,100,000	8,300,000
Less current portion included in accounts payable and accrued liabilities	450,000	200,000
	<u>\$7,650,000</u>	<u>\$8,100,000</u>

The Series A and B debentures are secured by a floating charge on the assets of the Company. Sinking fund requirements are \$450,000 per year.

Interest on long-term debt amounted to \$848,000 (\$870,000 in 1977).

9. Commitments

The Company and its subsidiary companies have entered into long-term leases of varying terms to 1996 for which the maximum net annual rental is \$1,100,000 (\$1,000,000 in 1977).

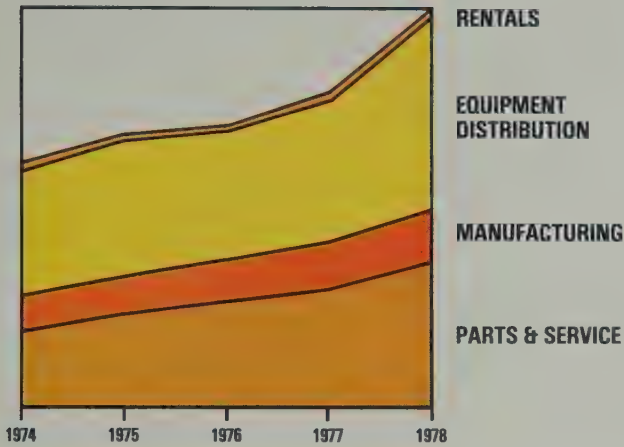
10. Employees' Pension Plan

The latest actuarial review of the employees' pension plan as at December 31, 1975, adjusted for changes in the plan in 1976, established an unfunded liability of approximately \$710,000 which is being funded over fifteen years by annual payments, including interest, of \$65,000.

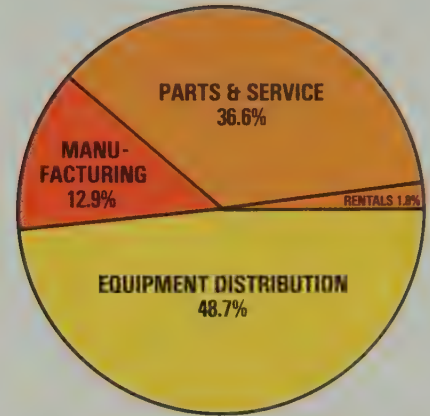
11. Anti-Inflation Legislation

During the year the Company was subject to the Federal Government's Anti-Inflation Legislation which limited increases in prices, profits, dividends and compensation. Management is of the opinion that the Company has no liability under this legislation at December 31, 1978.

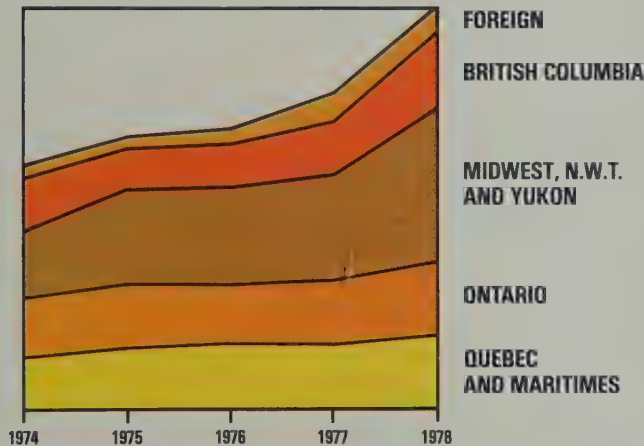
CHARTS



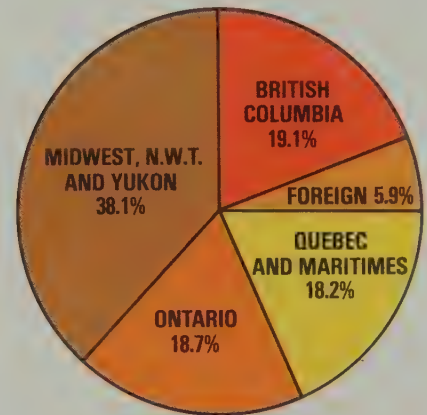
FIVE YEAR SALES CATEGORY BREAKDOWN



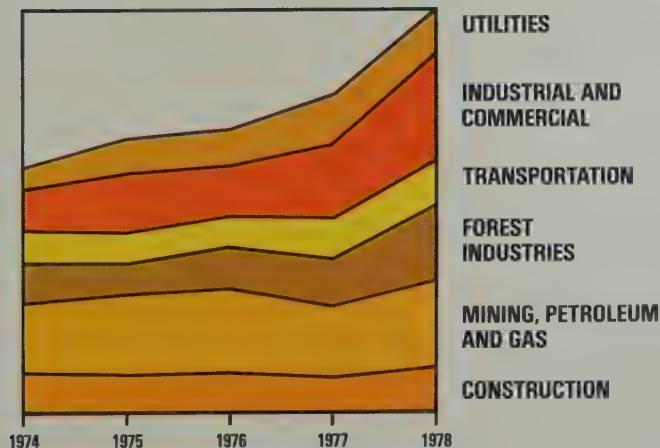
GROSS REVENUE BY SALES CATEGORY, 1978



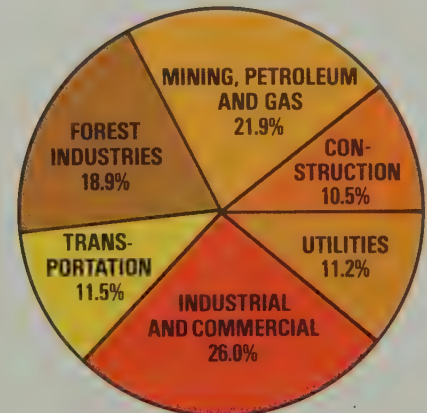
FIVE YEAR GEOGRAPHICAL BREAKDOWN



GROSS SALES BY GEOGRAPHICAL AREA, 1978



FIVE YEAR END USE MARKET BREAKDOWN



APPROXIMATE BREAKDOWN OF GROSS SALES BY END USE MARKET, 1978

TEN YEAR SUMMARY

(Dollars in thousands except per share data)

	Years ended			
	1978	1977	1976	1975
Gross Revenue	\$137,167	\$107,067	\$96,584	\$93,369
Pre-tax Earnings	\$ 9,010	8,303	7,734	7,955
After Tax Earnings	\$ 5,224	4,730	4,059	4,050
Income Taxes	\$ 3,786	3,573	3,675	3,905
Dividends Declared	\$ 1,838	1,752	1,610	1,365
Total Assets	\$ 79,942	58,107	49,209	45,461
Working Capital	\$ 27,788	26,853	24,585	22,362
Long Term Debt	\$ 7,650	8,100	8,300	8,500
Shareholders' Equity	\$ 28,396	24,183	21,071	18,607
After Tax Earnings as a % of:				
Total Assets	6.5	8.1	8.2	8.9
Shareholders' Equity	19.9	20.9	20.5	25.0
Gross Revenue	3.8	4.4	4.2	4.3
Shares Outstanding (Note 2)	3,331,820	3,246,820	3,218,834	3,215,434
Per Share:				
Earnings (Note 3)				
Pre-tax	\$2.76	\$2.56	\$2.40	\$2.75
After Tax	\$1.60	1.46	1.26	1.40
Dividends Paid (Note 4)	\$.70	.525	.50	.43
Equity	\$8.52	7.45	6.55	5.79
Working Capital	\$8.34	8.27	7.64	6.95
Number of Shareholders	1,519	1,542	1,560	1,600
Price Range of Shares (Note 2)	\$12½ - 9 ⅛	\$10¼ - 6¼	\$7½ - 6	\$7 - 4½

Note

- Results for 1971 have been restated on the deferred tax accounting basis adopted in 1972.
- Adjusted to reflect two-for-one stock splits in 1972 and 1977. Price ranges rounded to nearest ⅛ dollar.
- Per share earnings are based on the average number of shares outstanding during the year. These and other per share items rounded to the nearest cent.

December 31

1974	1973	1972	1971	1970	1969
\$83,965	\$62,426	\$50,327	\$33,997	\$27,810	\$25,427
6,793	3,928	2,920	1,863	1,462	1,484
3,303	1,950	1,518	910	769	693
3,490	1,978	1,402	953	693	791
981	767	435	272	222	197
43,235	34,709	27,092	23,434	17,311	15,779
14,699	12,692	10,174	8,115	6,424	6,235
4,500	4,500	2,775	3,150	1,826	2,041
13,858	11,520	10,261	7,578	6,481	5,935
7.6	5.6	5.6	3.9	4.4	4.4
26.0	17.9	17.0	12.9	12.4	12.2
3.9	3.1	3.0	2.7	2.8	2.7
2,803,292	2,799,092	2,781,492	2,334,936	2,222,536	2,222,536
\$2.42	\$1.41	\$1.13	\$0.83	\$0.66	\$0.67
1.18	.70	.59	.40	.35	.31
.33	.25	.14	.11	.10	.09
4.94	4.12	3.69	3.25	2.92	2.67
5.24	4.53	3.66	3.48	2.89	2.81
1,485	1,447	1,152	815	873	819
\$6 - 4 ³ / ₈	\$7 ¹ / ₈ - 4 ⁵ / ₈	\$6 - 3 ³ / ₈	\$3 ⁷ / ₈ - 2 ¹ / ₄	\$2 ¹ / ₂ - 1 ¹ / ₂	\$4 ¹ / ₄ - 2

4. As a result of the alignment of dividend payment dates with the calendar quarters, five dividends of 14¢ per share were paid in 1978. On a regular quarterly dividend basis, however, the indicated annual rate was 56¢ per share.



AREAS OF INVOLVEMENT

Mining, Petroleum & Gas

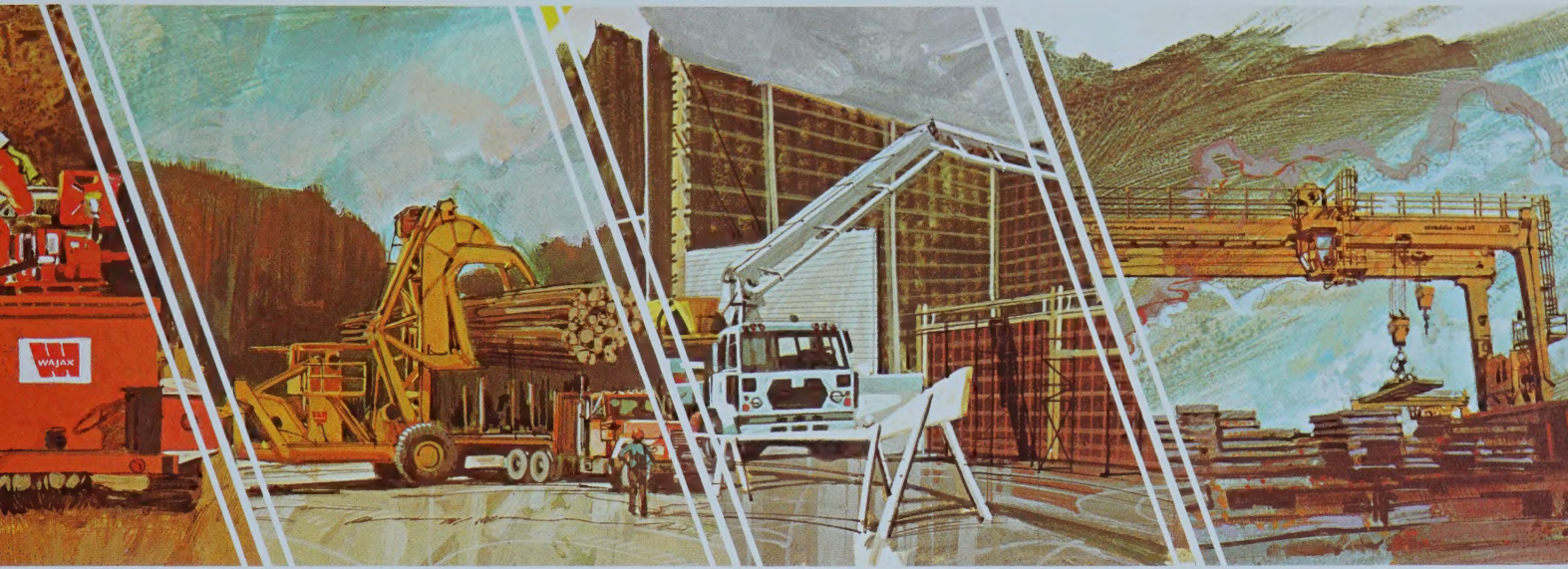
Mucking Machines
 Mine Cars
 Battery & Diesel Locomotives
 Load-Haul-Dump Units
 Electric Wheel Loaders
 Roadheading Machines
 Hydraulic Excavators
 Hydraulic Backhoes
 Belt & Chain Conveyors
 PVC Conveyor Belting
 Truck Mounted Cranes
 Yard Cranes
 Electric Vibrating Feeders
 Shotcrete Systems
 Hydraulic Powered Supports
 Rubber Linings: Skips, Chutes,
 Mills, Truck Boxes
 Rubber Screen Cloth
 Underground Trucks & Service Vehicles
 Heavy Duty Float Trailers
 Aerial Work Platforms
 Pneumatic & Hydraulic Hammers
 Mine Drainage Pumps
 Centrifugal, Diaphragm & Reciprocating
 Slurry Pumps
 Fork Lift Trucks
 Dust & Noise Control Systems
 Industrial Vacuum Systems
 Bearings and Oil Seals
 Diesel Engines

Materials Handling

Belt & Chain Conveyors
 Fork Lift Trucks: Electric, Propane,
 Gasoline, Diesel
 Container Handlers
 Piggy-Back Handlers
 Jib Cranes & Straddle Cranes
 Yard Cranes
 Truck Mounted Telescoping Cranes
 Truck Mounted Articulating Cranes
 Pallet Trucks
 Industrial Vacuum Trucks

Utility

Service Line Trenchers
 Digger Derricks
 Truck Mounted Cranes
 Hydraulic Tools
 Aerial Work Platforms
 Aerial Devices
 Utility Truck Bodies
 Industrial Vacuum Trucks
 Heavy Duty Float Trailers
 Diesel Engines



Fire Control

Hydraulic Portable Rescue Tool
 Fire Fighting Hand Tools
 Weather Instruments
 Portable & Stationary High Pressure
 Fire Pumps
 Fire Trucks/Mini Pumpers
 Back Pack Hand Pumps
 Helicopter Water Bombing Buckets
 Trailer Mounted Tankers
 Forestry/Municipal All-Purpose
 Fire Hose

Forestry

Hydraulic Knuckle-Boom Loaders
 Jib Cranes
 Truck Mounted Cranes
 Tree Crushers
 Debarkers
 Electric Wheel Log Stackers
 Fork Lift Trucks

Construction

Ditchers/Cable Layers
 Fork Lift Trucks
 Concrete Mixers
 Heaters, Vibrators, Compactors,
 Trowels, Rollers
 Climbing Cranes
 Truck Mounted Telescoping Cranes
 Truck Mounted Articulating Cranes
 Concrete Pumps
 Blast Cleaning Systems
 Aerial Work Platforms
 Generators
 Industrial Vacuum Trucks
 Heavy Duty Float Trailers
 Diesel Engines

Steel

Slurry Pumps
 Rubber Screens
 Conveyors
 Industrial Vacuum Systems
 Water Pumps
 Straddle Cranes
 Yard Cranes
 Truck Mounted Cranes
 Fork Lift Trucks
 Bearings and Oil Seals



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295 Joliette Street, Seven Islands, Quebec
4165 Boulevard Hamel West, Quebec, Quebec
6555 Cote de Liesse, Montreal, Quebec
2090 Monterey, Chomedey, Laval, Quebec
2114 Scott Street, Ottawa, Ontario
7390 Woodbine Avenue, Toronto, Ontario
163 Wicksteed Avenue, Toronto, Ontario
248 Steelcase Road E., Toronto, Ontario
5815 Campus Road, Mississauga, Ontario
428 Millen Road, Hamilton, Ontario
486 Clarke Road, London, Ontario
Highway 108, Elliot Lake, Ontario
Walden Industrial Park, Sudbury, Ontario
1870 Ellice Avenue, Winnipeg, Manitoba
627 Erin Street, Winnipeg, Manitoba
2122 Faithful Avenue, Saskatoon, Saskatchewan
6210 97th Street, Edmonton, Alberta
2327 91st Avenue, Edmonton, Alberta
5529 3rd Street S.E., Calgary, Alberta
1101 Victoria Avenue, Cranbrook, British Columbia
696 Cree Street, Kamloops, British Columbia
2244 Nicholson, Prince George, British Columbia
1441 Clark Drive, Vancouver, British Columbia
320 Industrial Avenue, Vancouver, British Columbia

WAJAX INTERNATIONAL LIMITED

248 Steelcase Road E., Toronto, Ontario

WAJAX MANUFACTURING LIMITED

6517 Cote de Liesse, Montreal, Quebec

WATEROUS GM DIESEL LIMITED

10025 51st Avenue, Edmonton, Alberta
7850 Blackfoot Trail, Calgary, Alberta
10906 97th Avenue, Grande Prairie, Alberta
8219 Manning Avenue, Fort McMurray, Alberta
Hampshire Road, Hinton, Alberta
7491 - 49th Avenue, Red Deer, Alberta

ELVINS EQUIPMENT SALES LIMITED

917.5 Alaska Highway, Whitehorse, Yukon

NATIONAL BEARINGS LIMITED

716 Renaud Avenue, Dorval, Quebec
529 Quebec Avenue, Seven Islands, Quebec
987 Notre Dame Street N., Thetford Mines, Quebec
325 Belvedere Street S., Sherbrooke, Quebec
904 Montcalm Street, Sorel, Quebec
8060 Chamilly Street, St-Leonard, Quebec
111 Du Marche Street, Valleyfield, Quebec
2555 Blackwell Street, Ottawa, Ontario

NIEDNER LIMITED

190 Cutting Street, Coaticook, Quebec

PACIFIC FIRE CONTROL INC.

65 Clinton Street, Malden, Massachusetts
3184 Marjan Drive, Atlanta, Georgia

PACIFIC PUMPERS INC.

227 Andover Park East, Seattle, Washington

WILCO FIRE EQUIPMENT CO.

730 S.E. Powell, Portland, Oregon

SMITH BROS. MOTOR BODIES LIMITED

7400 Woodbine Avenue, Toronto, Ontario

TRAILBEC LTD.

85 St-Joseph Street, Vimont, Laval, Quebec



